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Alaska Pipeline Builders Say Natural Gas Producers Must Commit to Project

By Tony Hopfinger, Anchorage Daily News, Alaska -- May 29

A group of pipeline builders has asked the state to stop permitting an Alaska-Lower 48 natural gas pipeline, saying they can't move ahead until producers of Alaska's vast gas reserves commit to the estimated \$20 billion project.

Foothills Pipe Lines Alaska Inc., which represents eight pipeline companies, asked the Alaska Gas Pipeline Office in Anchorage to stop processing an application to run the gas line across state land and along the Alaska Highway.

With no project to permit, some Gas Pipeline Office employees could face layoffs as the agency prepares to shut down this summer in reaction to the news, said Bill Britt, the agency coordinator.

Tuesday's announcement comes a month after three companies with rights to produce most of the North Slope's proven gas reserves of 35 trillion cubic feet concluded the project does not make financial sense at the moment.

The companies -- Phillips, BP and Exxon Mobil -- are awaiting the outcome of federal legislation that could sweeten the project, including tax breaks and assurance the pipeline wouldn't become bogged down in permitting delays.

But until the producers commit, Foothills and its partners don't have a pipeline to build. And the state doesn't have a reason to staff its Gas Pipeline Office.

John Ellwood, executive vice president of Foothills, spelled out the dilemma in a letter to the state last Friday.

"Given this and other uncertainties, our customers, the producers, are not likely to be in a position to make significant commercial decisions until the first half of 2003," he wrote.

The pipeliners include energy giants Enron, Duke Energy and El Paso, as well as several other companies, Britt said. They've been trying to revive a 25-year-old dream to run a pipeline from Alaska's arctic oil fields to the Lower 48.

In 1980 the federal government granted access to the group for a pipeline crossing about 430 miles of federal land in Alaska. But the project fell apart before the consortium got permission to cross about 200 miles of state land and 100 miles of private property.

About 18 months ago, the pipeliners chased the dream again as natural gas prices spiked, causing gas shortages in the Lower 48 where gas is increasingly burned for electricity and home heating.

Phillips, BP and Exxon Mobil spent \$125 million studying the cost of threading the line about 3,500 miles to Chicago along an Alaska Highway route through the state or under the Beaufort Sea and across the Canadian Arctic.

The highway route came in at an estimated \$19.4 billion and the northern route at \$18.6 billion, according to recently released final analysis.

Meanwhile, the state set up a 14-person office last year to approve right-of-way permits for a highway pipeline. The pipeline builders worked with the office to permit the 200 miles of state land left unresolved from 1980.

But gas prices began falling back toward normal levels, casting doubt on whether the time was right to build the line. And today, the producers have yet to commit to the project.

"It was anticipated that there would be up to 70 people in our office working on this, but it never got up to full speed," Britt said.

The energy bill the U.S. Senate recently approved could reduce some of the financial risks, such as preventing permitting delays and giving pipeline operators a tax credit whenever gas prices fell below \$3.25 per million BTU. The bill is in a House-Senate conference committee.

Foothills spokesman Rocco Ciancio said a favorable outcome could be crucial in deciding whether to resume permitting the pipeline route.

"We've got a lot of things done, but the uncertainties with the energy bill could have an effect on the project," he said.

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